

DOCKET NO. 92-329-E - ORDER NO. 93-445

ORDER

By letter dated September 21, 1992, the Commission's Executive Director required Carolina Power & Light Company, Duke Power Company, and South Carolina Electric & Gas Company to publish one time at their own expense on or before October 30, 1992 a notice of

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proceeding in newspapers of general circulation in the affected areas and provide the Executive Director proof of publication. Further, the Executive Director's letter ordered the companies to furnish at their own expense on or before October 30, 1992 by bill insert if possible a notice of proceeding to each customer and provide a certification on or before November 6, 1992 that this notification had been furnished. Petitions to Intervene were received from Carolina Power & Light Company, Duke Power Company, South Carolina Electric & Gas Company and the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

Accordingly, a hearing was held on May 5, 1993 at 10:30 a.m. before the Commission, the Honorable Henry G. Yonce presiding. The Commission Staff was represented by F. David Butler, General Counsel. The Intervenor, Carolina Power & Light Company did not appear. The Consumer Advocate for the State of South Carolina was represented by Carl F. McIntosh, Esquire. The Intervenor, Duke Power Company was represented by William Larry Porter, Esquire and William F. Austin, Esquire. South Carolina Electric & Gas Company was represented by Patricia Smith, Esquire.

The parties presented three witnesses in this case. The Commission Staff presented the testimony of Gary E. Walsh, Duke Power Company presented the testimony of William R. Stimart, and South Carolina Electric and Gas Company presented the testimony of John W. Flitter. Carolina Power & Light Company did not appear but adopted the testimony of Staff witness Gary E. Walsh as it own.

Walsh's testimony stated that S.C. CODE ANN. §58-27-865

established the procedures which allow electric utilities to recover their cost of fuel in the generation of electricity. The fuel factor is established every six months after a review by the Commission. The Commission's determination of the appropriate fuel factor is based on the cumulative over or under recovery from actual experience and projected fuel costs for the succeeding six months. Walsh testified that the methodology established by this statute has served the electric ratepayers in South Carolina very well since 1979. The procedure has allowed the Commission to review the fuel procurement procedures and plant performance every six months to ensure that the lowest possible fuel cost is recovered from ratepayers. Walsh also testified that the clause has allowed the Commission to minimize abrupt changes to ratepayers while encouraging the companies to operate as efficiently as possible.

Walsh further testified as to his belief that the current fuel statute would have to be modified through the legislative process to allow for interest to be imputed on the cumulative recovery account. Walsh stated that the imputation of interest on the cumulative recovery balance could, in fact, increase the potential for abrupt changes as the Commission weighs the impact of the ratepayers incurring interest costs versus zeroing out the cumulative recovery balance. Further, Walsh recommended that interest not be imputed on the cumulative recovery balance at the present time, therefore, necessitating no change in the current fuel statute.

Duke Power Company presented the testimony of W. R. Stimart. Duke did not take a position regarding the appropriateness of proposing a change to the fuel adjustment cost statute to provide for the application of interest to the cumulative recovery account. Duke did state, however, that should the Commission believe that such a proposal was appropriate, the Company believed that interest should be calculated on both over and under recovered balances. Further, Duke recommended that any interest should be simple interest, calculated monthly at the current effective interest rate per annum, prescribed by order of the Commission pursuant to §103-333 of the Public Service Commission regulations, which is the interest on deposit regulation. Currently, the approved interest rate is 8%.

Finally, South Carolina Electric & Gas Company presented the testimony of John W. Flitter. Flitter stated his belief that the current fuel cost recovery procedure established in 1979 was fair to the customers and SCE&G. According to Flitter, SCE&G has been allowed to recover its fuel costs through the Commission's established procedure in a manner that tends to assure public confidence, and minimizes abrupt changes in rates to customers. Flitter stated that when a Company over collects it is basically evidence that the Company has been operating its facilities in a more efficient manner than predicted by the Company and the Commission in the last fuel clause proceeding. Flitter stated that by charging interest on over collections, the Company is required to bear additional interest expenses because it achieved operating

efficiencies. If the interest is above the Company's cost of short term capital, then part of the interest is a penalty for efficient operations. When interest is applied to an under collection, the interest increases the amount to be caught up in the next fuel recovery period. Flitter states that the customer is subject to more abrupt rate changes under this scenario. To summarize Flitter's position, Flitter stated that the current fuel adjustment cost statute and the actions taken by this Commission concerning this statute have been fair for both the customers and the Company. Flitter did recommend that, should the Commission feel that it is appropriate to apply interest to the cumulative balance that it would be imperative that interest be applied to both under recoveries and over recoveries.

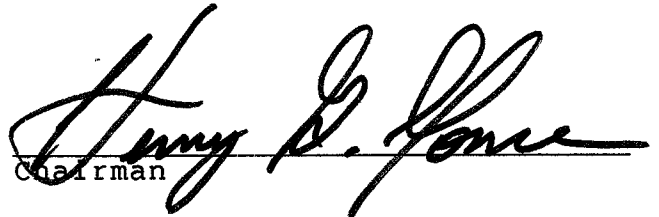
The Commission has examined the evidence in this matter and believes that the greater weight of the evidence dictates that the present fuel recovery mechanism be left intact without change. The evidence shows that the present statute is fair to both the Companies and their customers. According to the testimony of the witnesses, adding interest to an over recovery would unfairly penalize a Company for efficient operations, which is an inappropriate signal to send economically. Further, the testimony shows that adding interest to over and under recoveries could have the potential for causing more abrupt changes in the rates paid by the consumers.

IT IS THEREFORE ORDERED THAT:

1. The Commission will not propose a modification of the existing fuel statute to include interest on the cumulative recovery account at this time.

2. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)